MULTIMEDIA UNIVERSITY

STUDENT ID NO

MULTIMEDIA UNIVERSITY

FINAL EXAMINATION

TRIMESTER 3, 2021/2022

BBF1014 – FINANCIAL MANAGEMENT I

(All sections/Groups)

15 AUGUST 2022
9.00 a.m – 11.00 a.m
(2 Hours)

INSTRUCTIONS TO STUDENT

1. This question paper consists of 2 pages.
2. Attempt **ALL** questions. The distribution of the marks for each question is given.
3. Please write all your answers in the Answer Booklet provided.

QUESTION 1

(a) Meer Corporation wishes to determine the required return on an asset M, which has a beta of 1.5. The risk-free rate of return is 4%; the expected return on the market portfolio of assets is 8%.

(i) Calculate required return for Meer Corporation. (6 marks)

(ii) Melvina wishes to determine the return on two stocks she owned during 2020, which are Monsoon and Agro. At the beginning of the year, Monsoon stock traded for $122.45 per share, and Agro stock was valued at $174.70. During the year, Monsoon paid $3.20 per share in dividends, and Agro shareholders received dividends of $2.50 per share. At the end of the year, Monsoon stock was worth $512.60, and Agro stock sold for $481.20. Calculate the annual rate of return, *r*, for each stock. (14 marks)

(iii) Based on the calculation in part (ii), which stocks that Melvina received a higher return? (5 marks)

(Total: 25 marks)

QUESTION 2

(a) Term structure of interest rates explains the relationship between the maturity and rate of return for bonds with similar level of risks and can be presented in a graph known as yield curve. Explain briefly and draw 3 types of yield curve:

(i) Inverted Yield Curve (5 marks)

(ii) Normal Yield Curve (5 marks)

(ii) Flat Yield Curve (5 marks)

(b) Wrinch Company, producing small engineering parts from year 2015 through 2020 paid the following per-share dividends on its common stock:

Year	Dividend per share
2015	$1.00
2016	1.05
2017	1.12
2018	1.20
2019	1.29
2020	1.40

Based on the above information,

(i) Calculate historical annual growth rate for Wrinch Company. (5 marks)

(ii) Assume that in year 2021, Wrinch's dividend will equal $1.70 and required return is 13%. Based on answer in part (i), what will be the value of the stock for Wrinch Company? (5 marks)

(Total: 25 marks)

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QUESTION 3

Arfan Industrial a producer of shoes uses 2,100 inventory items per year which is very important to the production process. The carrying cost per switch assembly is $200 per year, order cost per order is $150 and the plant operates 250 days in a year and maintains a minimum inventory level of 2 units of safety stock. If the lead time to receive orders is 3 days, calculate:

(i)	It's daily usage of inventory	(6 marks)
(ii)	Economic Order Quantity (EOQ)	(7 marks)
(iii)	Reorder point.	(6 marks)
(iv)	Please explain your answer in part (iii)	(6 marks)

(Total: 25 marks)

QUESTION 4

(a) In 2020, Aryan Corporation (ACorp), had annual revenue of $3.8 billion, cost of goods sold of $1.8 billion, and accounts payable of $468 million and purchases were $1.3 billion. In addition, ACorp also had an average age inventory of 168 days, an average collection period of 55 days. Besides, the company also have an average payment period of 136 days.

(i)	Calculate cash conversion cycle for Aryan Corporation.	(5 marks)
(ii)	Aryan Corporation had invested in this cash conversion cycle by assuming a 365-day-year. Calculate resources invested.	(5 marks)
(iii)	Calculate daily accounts payable generated by Aryan Corporation.	(5 marks)
(iv)	Aryan Corporation plan to increase its average payment period by 5 days. Based on finding in part (iii), calculate new account payables for Aryan Corporation. Is it increasing or decreasing?	(5 marks)

(b) Discuss the basic features and interest rates of commercial paper. (5 marks)

(Total: 25 marks)

End of Paper